



# CITY OF LODI

## COUNCIL COMMUNICATION

**AGENDA TITLE:** Resolution Supporting the League of California Cities' Resolution on Sales Tax Redistribution to Increase the Amount Received by Cities to 2%

**MEETING DATE:** October 18, 1995

**PREPARED BY:** City Clerk

---

**RECOMMENDED ACTION:** That the City Council adopt the attached Resolution supporting the League of California Cities' resolution on sales tax redistribution to increase the amount received by cities to 2%.

**BACKGROUND INFORMATION:** This item appears on the agenda at the request of Mayor Mann.

On August 3, 1995, the Los Angeles Division of the League of California Cities adopted a resolution which directs the League to pursue legislative action to redistribute 1% sales taxes paid per dollar from the State to cities. In an effort to have this resolution adopted by the League's General Assembly on October 24, 1995, the City of Covina has requested that each city in California adopt a supporting resolution.

Currently, the statewide sales tax rate per dollar is 7.25%. Of this, the State receives 5%, counties receive 1.25% for public safety and health and welfare, and cities and counties receive 1% depending on place of sale. Because the amounts of sales tax revenues collected and retained by the State often exceeds the total general fund revenues collected by individual cities, the issue of redistribution has arisen and is the main theme of this resolution.

Redistribution is an issue for a number of other reasons, too. First, in recent years, the State has taken action to shift property tax money away from cities. This has resulted in revenue shortages in many cities, forcing them to establish new taxes, increase existing ones, or make cuts in services. Second, the revenue that many cities expected from Proposition 172 (.5% sales tax for public safety services) has not been realized in amounts sufficient to offset property tax revenue losses. While it is true that public safety funding has increased, about 90% of the revenues are kept by counties statewide due to the allocation formula.

In addition, recession has continued in many parts of the State meaning that revenues from sales taxes are down. Recession, combined with State takeaways, increased demand for local services, and an increased number of State mandates in recent years has led to an explosive political environment in many cities. This situation has forced cities to face tough decisions while the State budget continues to increase--the State's budget increased from \$53.083 billion in fiscal year 1993/94 to \$57.508 billion in fiscal year 1995/96, an increase of 8.3%.

APPROVED: \_\_\_\_\_

THOMAS A. PETERSON  
City Manager


**LCC Resolution on sales tax redistribution**  
**October 18, 1995**  
**Page Two**

To save many essential services provided by cities, it is believed that cities need to form a unified voice to effect the same changes at the State level that cities have been forced to make. In a very real sense, this issue is about the State's abuse of power--the continued willingness of the State to take money away from cities without constraint and recognition of what it takes to manage cities. The League resolution is a response to this situation by seeking to shift money from the State to cities.

If a 1% shift in sales taxes is accomplished, it would result in less than a 5% reduction in the State's budget, or a shift in about \$2.8 billion based on the most recent four quarters of statewide taxable sales. Because cities now receive a 1% share, and because there is no change proposed in how the sales tax revenues would be allocated to cities, the 1% shift in statewide sales taxes would result in an approximate doubling of the money received in sales tax revenue by the City of Lodi.

Because of State actions in recent years and increased demands for local services, it is recommended that the City Council adopt the supporting resolution and forward a copy to the City of Covina. Covina together with other cities will seek to have the League's Revenue and Taxation Committee approve the resolution on October 21, 1995 and then the League's General Resolutions Committee on October 23, 1995, and finally the League's General Assembly on October 24, 1995.

**FUNDING:**           None required.

  
Jennifer M. Perrin  
City Clerk

Attachments

cc:       Acting Finance Director



# CITY OF COVINA

125 East College Street • Covina, California 91723-2199

August 31, 1995

Mr. Thomas M. O'Leary  
Mayor  
City of Covina  
125 East College St.  
Covina, CA 91723-2199

Dear Mr. O'Leary:

We are writing you to request the City of Covina's support for the attached resolution which was adopted by the Los Angeles Division of the League of California Cities on August 3, 1995. As you are aware, Division-sponsored resolutions are being forwarded to the League's General Resolutions Committee on October 23, 1995, and then to the General Assembly on October 24, 1995.

The subject resolution seeks to redistribute 1% sales tax from the State to cities. The State currently gets 5% and cities get 1% of the sales taxes paid on each dollar throughout California. The resolution directs the League to initiate legislative actions, either through the State legislature or through a ballot initiative, to change the percentage split to 4% for the State and 2% to cities. If the shift in sales taxes is accomplished, it would mean that the amount of sales taxes cities now receive would double.

In essence, the resolution seeks to shift money from the State to cities using an existing tax mechanism and an existing allocation method. The resolution is relatively simple and in "terms of complexity" stands in sharp contrast to a number of efforts underway on government restructuring, constitutional revision, and modification of the taxation system. Consequently, the proposed resolution should not be compared to these activities. The issue for this resolution is not the structure of government, the constitution, or the taxation system -- it is how much money different agencies receive. We believe cities and counties are getting a disproportionately small share of available revenues.

For example, the City of Covina, located in eastern Los Angeles County with a population of 44,000, will receive about \$19.8 million in general fund revenue during this next fiscal year from over a dozen sources, including an 8.25% utility users tax. Of this total, sales tax revenue is about \$5.7 million. The State will get five times this amount or about \$28.5 million -- all from Covina transactions. The amount of sales tax revenue going to the State exceeds the City's total general fund revenue from over a dozen sources! And while Covina's budget has been reduced in recent years like a number of other cities and counties throughout California, the State's budget continues to increase, from \$53.083 billion in fiscal year 1993-1994 to \$57.508 billion in fiscal year 1995-1996, an increase of 8.3%.

As most city administrators throughout California know, part of the problem here is that property tax revenue and other funds have been lost due to State takeaways. A recent *Los Angeles Times* article put the amount of property tax revenue taken away by the State at \$3.9 billion. Although many would agree that schools need more funding, it is unlikely that many would agree it should be taken out of the pockets of cities and counties since we have been heavily impacted by numerous State and Federal mandates as well as increased demands for Police, Fire, Public Works, Community Development, Parks and Recreation, and Library services amid continuing recession in many parts of the state.

Adding to the plight and dismay of cities is the outcome of Proposition 172. Proposition 172 was approved by voters in November 1993 and increased statewide sales taxes a half percent to augment public safety funding, funding for police and fire services, for example. While it appeared that this measure would offset losses in property tax revenue, most cities only receive a small fraction of the money collected from this Proposition due to the formula used to apportion these funds. For example, Los Angeles County received \$370 million so far for 1994-1995 from Proposition 172, yet has allocated only about \$35 million to cities in Los Angeles County, less than 10% of the revenues. Of the funds allocated to cities, Covina received \$213,000, an amount far less than a half percent sales tax. If these funds were allocated using the formula used to allocate other sales tax revenues, Covina would have received over \$2.5 million.

We all know what is at stake regarding the financing of local government services. The true impacts of the recession and the need for increased government revenues have been pushed down to the local level by the State. To save many essential services that are now being threatened, we need to form a unified voice to effect the same changes at the State level that we have been forced to make as cities and counties. Through this resolution we are seeking a shift of an estimated \$2.8 billion from the State to cities and counties. This amounts to less than a 5% cut in the State's fiscal year 1995-1996 budget. This is not an unreasonable reduction considering the kinds of drastic cuts being made this year by many cities and counties throughout California.

We are not seeking a battle with the State over revenue. We simply feel that many local services that are now being jeopardized represent a higher taxpayer priority (e.g., Police and Fire) than other services provided by the State. This is the issue we wish to bring forward with this resolution. We ask that your City Council adopt the attached supporting resolution and either FAX it or mail it to the City of Covina by October 18, 1995. FAX to Covina's City Manager, Mr. Fran Delach at 818/858-5556, or mail it to him at 125 E. College Street, Covina, CA 91723.

Following receipt of your supporting resolution, Covina will mail you a lapel pin that is now being produced to promote this effort. If you have any questions about this resolution feel free to call either of us at 818/858-7212.

Thank you,



Thomas M. O'Leary  
Mayor



Francis M. Delach  
City Manager

TMO'L/FMD:CAK

## INFORMATION & SOURCES

### Statewide Tax Rate

The statewide sales tax breaks down as follows according to the State Board of Equalization. [Legal references were obtained from Mr. John Waid, Senior Legal Counsel, State Board of Equalization (telephone 916/324-3828). Taxable sales information is available from the Statistics Section, Planning and Research Division, State Board of Equalization (telephone 916/445-0840)].

### STATEWIDE SALES TAX BREAKDOWN Percents received by Agencies

AGENCY	AMOUNT	LEGAL REFERENCE
State Government	5.00%	R & T Code 6051 & 6051.3
County - Health & Welfare	.50%	R & T Code 6051.2 & 6201.2; W & I 17600
County - Public Safety*	.50%	Prop 172 added to State Constitution
Cities and Counties#	1.00%	R & T Code 7202(a)
Counties - Transportation	.25%	R & T Code 7202(d)(e)
Total	7.25%	

#### Notes:

\*About 10% of the amount apportioned to counties is allocated to cities, except in Alameda County.

#Apportioned by place of sale.

### Do cities receive 1% or 1.25%?

The Bradley-Burns Uniform Local Sales and Use Law (Taxation and Revenue 7200 et seq.), does establish the rate for cities and counties at 1.25 percent. But, according to Mr. John Waid, Senior Legal Counsel, State Board of Equalization, .25 percent is reserved for county transportation programs and goes to counties. This is pursuant to sections 7202(d)(e). Hence, cities do not receive 1.25 percent, but 1% in non-restricted general funds.

### Health and Welfare Realignment Program

The amount designated for county health and social service programs of \$1.6 billion (according to *Western City*, August 1995, p. 4), mostly goes only to counties, according to the Sandy Rogerson, Supervisor of Health and Welfare Program, Apportionment Unit of the State Controller's Office (916/322-5089). This is for the Health and Welfare Realignment Program which was approved and went into effect in 1991. This program is codified in Welfare & Institutions Code, Sections 17600 - 17609.15. Only seven cities statewide receive any funds for this program (San Francisco, Berkeley, Pasadena, Long Beach, and a Tri-City group).

-- OVER --

### Public Safety Funds

These funds were voter approved through Prop 172 in November of 1993 and amount to a .5% sales tax. They are designated for counties and cities that were subject to the property tax shift and are apportioned to counties based on their percentage of statewide taxable sales.

Counties allocate funds to cities based on a formula established in Government Code Sections 30052-30054. According to Mr. Lyman Jeung, Principal Accountant of the LA County Auditor's Office (telephone 213/974-8362), and as stated in the Code, there is a limit on how much cities can receive from Prop 172 revenue -- 50% of the amount shifted in property taxes after deducting vehicle registration fee revenue. For example, if a city lost \$1 million in property tax revenue but received \$200,000 in vehicle registration fee revenue, then the city could receive no more than \$400,000 in Prop 172 revenue ( $1,000,000 - 200,000 = 800,000 * .50 = 400,000$ ).

LA County received \$370 million in fiscal year 94-95 (less 1 month) and retained \$335 million; cities in LA County were apportioned about \$35 million -- less than 10% of the total apportioned to LA County by the State. Mr. Lyman says that counties lost a greater share of property tax revenue during the shift and this is why counties receive a larger share of sales tax revenue from this source. According to Ms. Kwong-McGee at the State Controller's Office (916/324-8365), a number of cities are now complaining how little funding they actually receive -- in some cases counties are retaining up to 95% of these revenues. As an example of what this has meant to cities consider the following example.

Prop 172 ushered in a 1/2 cent or .5% sales tax. A 1% sales tax results in \$5.7 million to the City of Covina (population 44,000) when it is apportioned based on place of sale. Yet, the 1/2 cent sales tax imposed by Prop 172 resulted in only \$213,000 to Covina last year. This has to do with the formula set forth in Government Code Section 30054. If this allocation formula was changed to return the funds based on place of sale, Covina's revenue designated for public safety services would increase by over \$2.5 million per year.

RESOLUTION NO. 95-142

A RESOLUTION OF THE LODI CITY COUNCIL  
SUPPORTING THE LEAGUE OF CALIFORNIA CITIES'  
RESOLUTION ON SALES TAX REDISTRIBUTION TO INCREASE  
THE AMOUNT RECEIVED BY CITIES TO 2%

=====

WHEREAS, the State receives five times as much sales tax revenue as cities throughout California; and

WHEREAS, the sales tax revenue retained by the State from individual cities often exceeds the general fund budgets of those cities where the sales tax revenue originates; and

WHEREAS, cities provide services that directly benefit the quality of life in hundreds of communities throughout California; and

WHEREAS, the public benefits of cities' services include the maintenance of property values, reduced risk to health and safety caused by crime, fires, medical emergencies, poor sanitation, and poor building and road construction; and

WHEREAS, cities' services provide important cultural and economic benefits through parks and recreation programs, library and senior programs, removal of blight from inner cities and older neighborhoods, and through business attraction efforts that provide jobs; and

WHEREAS, the State has acted to reduce the amount of revenue received by cities in recent years forcing many cities throughout California to augment their revenues by imposing local assessments, fees, or taxes -- or to make cuts in essential services; and

WHEREAS, because cities receive only a small fraction of the money collected through voter-approved Proposition 172 (Public Safety Augmentation Fund), public safety services like police and fire services face drastic financial reductions in many cities throughout California in light of State takeaways and State-imposed mandates; and

WHEREAS, many taxpayers object to paying additional taxes for what they view as diminishing local services caused by these factors, especially while the demand for police services, for example, continues to increase due to rising crime; and

WHEREAS, on August 3, 1995, the Los Angeles County Division of the League of California Cities adopted a resolution which seeks legislative action that would result in a more equitable distribution of sales tax revenue by shifting 1% sales tax revenue from the State to cities; and

WHEREAS, the League's resolution will help cities provide essential local services without adding more burden to taxpayers; and

WHEREAS, on October 24, 1995, the General Assembly of the League of California Cities will vote on this important resolution;

NOW, THEREFORE, BE IT RESOLVED, by the Lodi City Council that the City of Lodi does hereby support the League of California Cities' resolution to Redistribute Sales Taxes so that the total received by cities is 2% of the amount paid per dollar on taxable sales.

Dated: October 18, 1995

=====

I hereby certify that Resolution No. 95-142 was passed and adopted by the City Council of the City of Lodi in a regular meeting held October 18, 1995, by the following vote:

AYES: COUNCIL MEMBERS -

NOES: COUNCIL MEMBERS -

ABSENT: COUNCIL MEMBERS -

ABSTAIN: COUNCIL MEMBERS -

STEPHEN J. MANN  
Mayor

Attest:

JENNIFER M. PERRIN  
CITY CLERK